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UNITED STATES OF AMERICA  
DEPARTMENT OF TRANSPORTATION  
OFFICE OF THE SECRETARY  
WASHINGTON, D.C.

Issued by the Department of Transportation  
on the 1st day of May, 2000

Essential air service at

HANA, HAWAII

under 49 U.S.C. 41731 *et seq.*

Served: May 3, 2000

Docket OST-99-6502 - //

ORDER SELECTING CARRIER

**Summary**

By this order we are selecting Air Nevada, Inc., d/b/a Pacific Wings to provide essential air service (EAS) at Hana consisting of two nonstop round trips per day to Honolulu, and three nonstop round trips per day to Kahului for \$574,500 annually.

**Background**

On November 11, 1999, Pacific Wings filed a 90-day notice of its intention to suspend its subsidy-free service at Hana effective February 9, 2000. Pacific Wings provided two daily nonstop round trips in the Honolulu market and three daily nonstop round trips in the Kahului market with 8-seat Cessna 402 equipment, the level it provided when it had recently replaced Aloha Island Air's service. Order 99-12-23 prohibited Pacific Wings from suspending its subsidy-free service at Hana, effective February 9, 2000, and required it to continue to provide 13 nonstop round trips a week to Honolulu and 19 nonstop round trips a week to Kahului.

So that Pacific Wings could be compensated during the carrier selection proceedings, we issued Order 2000-2-5 setting a final rate for Pacific Wings at Hana from February 9, 2000, until further Department action. In response to that request for proposals, Pacific Wings submitted a proposal with three options for our consideration. Finally, in letters to the state and community representatives dated January 20, 2000, we summarized the carrier's various options and requested their comments. The carrier selection decision is now before us.

**Proposal of Pacific Wings**

The time allotted for carriers to file competing proposals has expired, and we have only one applicant in the case, Pacific Wings. It has submitted three options for our consideration.

Under Option 1, which reflects the current service pattern, Pacific Wings would provide 13 nonstop round trips to Honolulu and 19 nonstop round trips to Kahului each week. All

service to Honolulu would be provided with 8-seat Cessna 402 aircraft and the Hana-Kahului would be a mixture of Cessna 402 and Cessna 172 aircraft.

Under Option 2 Pacific Wings' would provide seven nonstop round trips a week to Honolulu with Cessna 402 aircraft, its Kahului service proposed in Option 1 would remain the same. For this reduced level of service, Pacific Wings requests \$441,090 annual subsidy.

Under Option 3, Pacific Wings would increase its Kahului service to 28 nonstop round trips per week with C-402 aircraft. Passengers could of course connect at Kahului to either Honolulu or the mainland. Given the shorter distance to Kahului, this option would require \$343,256 annual subsidy, significantly less subsidy than the other two options.

### **Community Response**

The State of Hawaii and the community of Hana gave their strong support to the reselection of Pacific Wings' Option 1. They note that Hana is truly isolated--access to the outside world other than the subsidized service is by a single road requiring a three-hour drive. The state notes that the EAS program's "overriding objective [is] insuring the maintenance of reasonably convenient access by isolated small communities to the nation's air transportation system." Also, the State notes that not selecting Option 1 "would have a substantial adverse impact on the economy of Hana which, like all of Hawaii, is heavily dependent upon air transportation." In addition, because United Parcel Service would not send regular express shipments to Hana via Pacific Wings if it offered fewer than two round trips per day, only Option 1 "would enable Pacific Wings to continue to carry urgent time-sensitive express shipment(s)." Finally, the Hana Coast Realty notes that the largest employer in Hana, the Hotel Hana-Maui, has recently been sold and that if service under Option 1 were to continue, "it appears that a period of renewal and revitalization are at hand, as occupancy and passenger counts increase."

### **Decision**

We have decided to select Pacific Wings' Option 1. In this case, we note that Hana had maintained subsidy-free essential air service for twenty years since the inception of the EAS program, and thus has a proven traffic-generating record. Also, the community is truly isolated and dependant on its air service. It is reasonable to expect that, with frequent service to Honolulu by a reliable carrier in conjunction with expected renewal of the local economy, subsidy need for the ensuing two-year contract period should be substantially less.

### **Carrier Fitness**

49 U.S.C. 41738 and 41737(b) require that we find an air carrier fit, willing and able to provide reliable service before we may compensate it for essential air service. The Department has discussed the fitness of Pacific Wings with the Federal Aviation Administration (FAA). Based on our review, we find that Pacific Wings has adequate financial and managerial resources to maintain reliable service at Hana, and that it possesses a favorable compliance disposition. The FAA has advised us that the carrier is conducting its operations in accordance with its regulations, and knows of no reason why we should not find that Pacific Wings is fit. Based on the above, we

find that Pacific Wings is fit to provide the essential air transportation at issue in this case. Pacific Wings remains subject to the Department's continuing fitness monitoring.

This order is issued under authority delegated in 49 CFR 1.56a(f).

**ACCORDINGLY,**

1. The Department selects Air Nevada, Inc., d/b/a Pacific Wings to provide essential air service at Hana, Hawaii, for the two-year period through March 31, 2002;
2. The Department sets the final rate of compensation for Air Nevada, d/b/a Pacific Wings, for the provision of essential air service at Hana, Hawaii, as described in Appendix C, to be payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling of \$5,276.18 at Honolulu and \$5,884.97 at Kahului and shall be determined by multiplying the subsidy-eligible flights completed each month between Hana and each hub by \$202.93 for C-402 flights to Honolulu, \$202.93 for C-402 flights to Kahului, and \$101.47 for C-172 flights to Kahului;<sup>1</sup>
3. This rate is in lieu of, and not in addition to, that set by Order 2000-2-5;
4. We find that Pacific Wings Airlines, Inc., continues to be fit, willing, and able to provide reliable air service at Hana, Hawaii;
5. We direct Pacific Wings, to retain all books, records, and other source and summary documentation to support claims for payment and to preserve and maintain such documentation in a manner that readily permits the audit and examination by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order;
6. This docket will remain open until further order of the Department; and

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<sup>1</sup> See Appendix C for calculations.

7. We will serve a copy of this order on the Mayor and airport manager of Hana, Hawaii, the Hawaii Department of Transportation, and Pacific Wings.

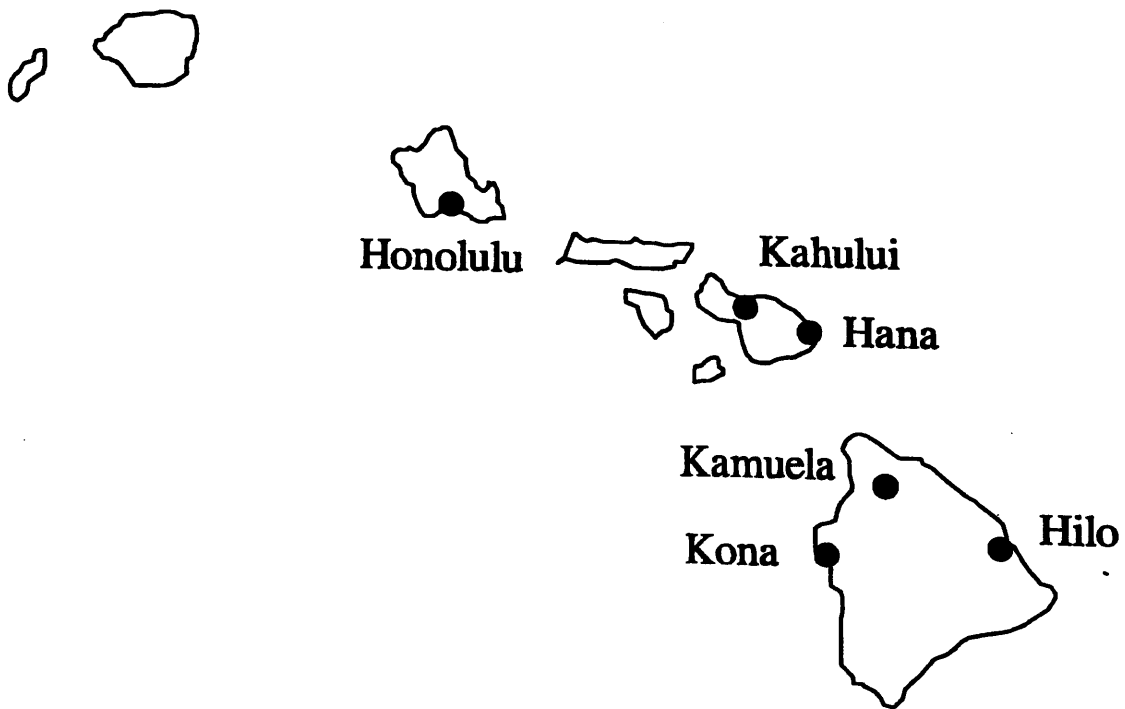
By:

A. Bradley Mims  
Deputy Assistant Secretary for Aviation  
and International Affairs

(SEAL)

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# HAWAII



## Mileages

Kamuela - Kona	33
Kamuela - Hilo	45
Kamuela - Honolulu	171
Kamuela - Kahului	78
Hana - Kahului	28
Hana - Honolulu	128

## Appendix B

### Pacific Wings, Essential Air Service to be Provided to Hana, Hawaii, Docket 99-6502

Service: 13 r.t./week to Honolulu &  
19 r.t./week Kahului 1/

Kahului @ \$33.58	\$130,559
Honolulu @ \$41.53	\$174,924
<u>Honolulu Cargo</u>	<u>\$48,000</u>
Total Revenue	\$353,483 2/

C-402 Hours	1,598 3/
C-172 Hours	417 3/

Crew @ \$52.70/Hr. & \$35.30/hr.	\$98,935
Fuel & Oil @ \$75.13 & \$17.55/hr.	\$127,376
Maintenance @ \$115.89 & \$36.15/hr.	\$200,267
Aircraft Ins. @ \$16.10 & \$10.11/hr.	\$29,944
<u>Lease/Depr. @ \$22.44 &amp; \$11/hr.</u>	<u>\$40,446</u>
Total Directs	\$496,968

Hana Station	\$66,355
Kahului Station	\$14,187
Honolulu Station	\$21,188
<u>Admin. &amp; Overhead</u>	<u>\$261,342</u>
Total Indirects	\$363,072

Operating	\$860,040
Return @ 5%	\$43,002
<u>Interest @ 2.9%</u>	<u>\$24,941</u>
Economic Cost	\$927,983

Annual Subsidy	\$574,500
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1/ Although the subsidy calculation is based on ten C-402 and nine C-172 round trips a week to Kahului, Pacific Wings may substitute each aircraft for the other at Kahului, with each C-172 counted as half of a C-402 for payout purposes, up to the weekly ceiling.

2/ Kahului:  $3,888 \times \$33.58 = \$130,559$

Honolulu:  $4,212 \times \$41.53 = \$174,924$

Honolulu: UPS Contract, available only if two trips/day flown.

3/ Honolulu, C-402:  $26 \text{ flt./week} \times 57 \text{ min./flt.} \times 52 \text{ weeks} \times .99 \text{ completion} = 1,272 \text{ hrs.}$

Kahului, C-402:  $20 \text{ flts./week} \times 19 \text{ min./flt.} \times 52 \text{ weeks} \times .99 \text{ completion} = 326 \text{ hrs.}$

Kahului, C-172:  $18 \text{ flts./week} \times 27 \text{ min./flt.} \times 52 \text{ weeks} \times .99 \text{ completion} = 417 \text{ hrs.}$

**PACIFIC WINGS AIR, INC., ESSENTIAL AIR SERVICE AT  
HANA, HAWAII, DOCKET 99-6502**

**EFFECTIVE PERIOD:** April 16, 2000, through March 31, 2002.

**SCHEDULED PASSENGER SERVICE:** 13 nonstop round trips each week between Hana and Honolulu with Cessna 402 aircraft; and 19 nonstop round trips each week between Hana and Kahului with a mixture of Cessna 402 and Cessna 172 aircraft <sup>1</sup>.

**AIRCRAFT TYPE, Seats Assigned:** 8-seat Cessna 402 and 3-seat C-172 aircraft.

**PILOTS: C-402, Two Pilots, C-172, One pilot.**

**TIMING OF FLIGHTS** Flights must be well-timed and well-spaced to ensure full compensation.

**SUBSIDY RATE PER ELIGIBLE FLIGHT:** \$202.93 <sup>2</sup>

	<u>Honolulu</u>	<u>Kahului</u>
<b><u>COMPENSATION CEILING EACH WEEK:</u></b>	\$5,276.18 <sup>3</sup>	\$5,884.97 <sup>4</sup>

**NOTE**

The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

<sup>1</sup> For calculation of the subsidy in Appendix B we assumed there would be 26 flights to/from Honolulu with a Cessna 402, 20 flights to/from Kahului with a Cessna 402, and 18 flights to/from Kahului with a Cessna 172. However, at Kahului the carrier would be allowed to alter its mix of C-402 and C-172 flights. C-172s are assigned one-half the subsidy per flight of C-402 flights. The carrier would not be permitted to alter the mix of its service between Honolulu and Kahului.

<sup>2</sup> Annual compensation of \$574,500 divided by estimated annual completed flights at a 99 percent completion factor: (26 flts./week HNL + 29 flts./week OGG) = 55 flts./week x 52 weeks x .99 = 2,831  
Note: For calculation purposes we have treated flights with a C-172 as one half of a C-402 flight.

<sup>3</sup> Subsidy rate per flight of \$202.93 multiplied by 26 flights/week.

<sup>4</sup> Subsidy rate per flight of \$202.93 multiplied by 29 flights/week.